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RELEASED

Review Of Selected Contracts Of The
Economic And Youth Opportunities
Agency Of Greater Los Angeles,
California, And The Veterans
Economic And Training Service
Program B-130515

Office of Economic Opportunity

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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JUNE 28, 1972



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-130515

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R Dear Mr. Holifield;

In response to your letter of January 12, 1972, and as agreed in discussions with your office, we have reviewed selected professional and technical service (PTS) contracts administered during calendar years 1970 and 1971 by the Economic and Youth Opportunities Agency of Greater Los Angeles (EYOA)-- a community action agency grantee of the Office of Economic Opportunity (OEO). EYOA also receives Federal funds from the Departments of Labor and of Health, Education, and Welfare to administer and conduct specific programs. Federal funding of programs administered by EYOA for calendar years 1970 and 1971 amounted to about \$77 million. During this period, EYOA administered 167 PTS contracts in the amount of about \$2.2 million.

We reviewed the services contracted for to determine whether the services were needed and the use made of the services provided; we also examined billings made under the contracts. We reviewed the procedures used by EYOA to acquire the services, including the selection of contractors, and determined whether the contractors performed within the terms of the contracts.

We are also responding to your request that we determine the accomplishments of the Veterans Economic and Training Service (VETS) program and evaluate EYOA's decision to not fund the program for 1972.

Our review, made during February, March, and April 1972 at the offices of EYOA and VETS, included examinations of pertinent accounting and contract records, discussions with officials of EYOA and the director of the VETS program, and interviews with contractors and other persons having information relevant to our review. We also obtained pertinent information from OEO and Labor through discussions with agency officials and review of regulations, instructions, and appropriate records.

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REVIEW OF PTS CONTRACTING

In discussions with your office, it was agreed that we would review several PTS contracts, including two contracts awarded in late 1969 but performed mainly in 1970, which had been specifically questioned in correspondence to you from United Community Efforts, Inc., and additional EYOA contracts providing a representative sample to serve as a basis for considering EYOA procedures and practices relating to contracting for PTS. We included in our review 13 contracts which accounted for about 27 percent of the total dollar amounts for PTS contracts administered in calendar years 1970 and 1971, as shown below:

	<u>Number</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
All contracts	167	100	\$2,226,574	100
Reviewed contracts	13	8	605,440	27

PTS contracts awarded by EYOA provided for a broad range of services, such as medical and dental care, vocational training, legal counsel, and administrative assistance. The 13 contracts we reviewed represented a cross section of the types of services obtained by EYOA. The contracts provided for furnishing services directly to enrollees of various programs carried out by EYOA or its delegate agencies¹ or provided for services pertaining to the efficiency and economy of overall EYOA operations. For example, one contract provided for Concentrated Employment Program (CEP) enrollees to be furnished with optical care, when necessary, as part of that program's goal to prepare the enrollees for job placement. Another contract provided for an evaluation of EYOA's

¹A delegate agency is any organization which, under formal agreement, is given responsibility for carrying out part of a community action agency program.

organizational structure. Details, including a synopsis of each of the 13 contracts, are presented in appendixes I and II.

Need for contracted services

Our examination showed that professional and technical services had been contracted for when EYOA lacked in-house capability to provide the desired services. We observed that in two cases, when the services acquired by contract had been determined to represent permanent requirements, the contract had not been renewed but rather permanent personnel were hired to perform the services. For example, as part of its plan to become increasingly involved in programs for the Indian community, EYOA contracted with a consultant to serve as an Indian-programs-planning coordinator. The period of performance was approximately 9 months, at the end of which a permanent staff position was established and a full-time employee was hired to replace the consultant.

Contract billings

We examined 82 of the 103 invoices that were paid under the 13 contracts. With one exception, the invoices and resulting payments were in accordance with the terms of the contracts. In the excepted case, EYOA reimbursed a contractor \$250 for costs not specified in the contract. Because the costs incurred were for the benefit of enrollees and because of the dollar amount involved, action was not taken by EYOA or Labor to recover the money. We found no other instances of incorrect payments.

Contract award procedures and practices

OEO and Labor officials advised us that, in line with their policies of giving grantees latitude in their contracting procedures, guidelines are directed to specifying contract forms and recommending contracting for only those services which the agency could not get without charge from within the organization or the community. EYOA procedures complied with these requirements.

However, we observed that any of EYOA's 16 organizational divisions were permitted to contract for services without coordinating such procurements with other divisions which might have contracted for similar services. For example, we noted two instances in which optical services had been procured under separate contracts with the same contractors for similar services to Neighborhood Youth Corps (NYC) and CEP enrollees. For these services, NYC contracted to pay a fee of \$35 per enrollee as compared with a \$40 fee contracted for CEP enrollees. After we brought this difference to the attention of EYOA officials, they took action to have the CEP enrollee fee reduced in the succeeding contract.

We suggested to EYOA officials that consolidating PTS procurement activities or establishing a centralized review point for all such procurements would increase coordination between the various organizational units which constituted EYOA and would result in possible cost reduction in the procurement of services. The executive director of EYOA agreed and advised us that such action would be considered.

Of the 13 contracts we examined, 11 had been awarded on the basis of criteria other than price competition. We were advised by EYOA officials that, in some of the instances in which contracts had not been awarded on the basis of price competition, the reasonableness of the contract price was determined by comparing it with the price charged by other vendors. These price checks, however, were not documented. Among factors which EYOA considered in selecting contractors on a basis other than price were (1) accessibility of the contractor to enrollees and (2) previous experience of EYOA, OEO, and Labor with the contractor.

We attempted to determine the reasonableness of the prices of the contracts that had not been competitively awarded. In general, we were unable to obtain comparative prices from vendors because of the passage of time and because many of the contract requirements, such as curricula for training programs, were unique to EYOA. In such cases we considered the reasonableness of contract prices on the basis of

the type and amount of work involved. It did not appear to us that the prices charged were excessive.

Contractor performance

With one exception, the contractors completed the work set forth in contracts.¹ In the excepted instance, the contractor was required to provide business machine training and subsequent placement assistance to 60 NYC enrollees. EYOA records show that 43 enrollees completed the course and that nine were placed in jobs. EYOA officials advised us that they considered the training received by the enrollees to be of poor quality. They further advised us that the contractor had not used its regular staff, facilities, or curriculum in training the enrollees. In addition, the contractor's placement director did not have the means to operate an effective placement program. Because of this poor performance, EYOA withheld the final 14 percent of the contract amount.

EYOA officials stated that the contractor's performance had not been adequately monitored because EYOA lacked sufficient personnel. Subsequently, but prior to our review, the NYC Division of EYOA hired staff and implemented procedures to monitor and evaluate contractor performance, which EYOA officials believe will enable prompt identification and correction of performance problems.

Conclusions

EYOA procured a wide range of professional and technical services which appeared to be justified by the needs of its clients and its operating needs. The services were purchased

¹We did not review the contractors' performance under two contracts--one for which the contract period extends through June 1973 and one for which the contractor was responsible not to EYOA but to another agency. See appendix II, contracts L and M.

at rates which, considering the lack of competitive cost data, did not appear excessive, and EYOA's payments under the contracts were generally proper. EYOA generally received what it paid for, and the services were used by the agency and its clients. In addition, the procedures used by EYOA to procure PTS complied with OEO and Labor requirements. We believe, however, that EYOA's procedures could be improved by consolidating or otherwise coordinating the procurement function. EYOA management indicated that it would consider implementing this suggestion.

REVIEW OF VETS PROGRAM

EYOA decision to not fund the VETS program for 1972 was justified on the basis of the program's inability to meet its proposed objectives and its apparent low level of accomplishment. VETS' main activity was the referral of veterans to other organizations for services and not direct service to veterans as it had proposed. Moreover, the services that VETS proposed to provide to veterans are available through the Veterans Administration (VA) and established veterans service groups such as AMVETS, the American Legion, and the Veterans of Foreign Wars.

The VETS program was to serve at least 5,500 American veterans of World War II, Korea, and Vietnam, in the Los Angeles area by providing training, job placement, and other assistance. The VETS objectives also included changing VA and existing veterans service organizations to make them more responsive to veterans' needs. EYOA allocated \$65,832 of its OEO funds for the VETS program, which operated as a delegate agency of EYOA for the period April 1 to December 31, 1971.

In their evaluation of the VETS program proposal in October 1970, the EYOA staff recommended that the program not be funded because it was directed mainly to veterans living in VA facilities in Los Angeles who were already receiving assistance from VA. In November 1970, however, the EYOA board of directors voted to fund the program. Through discussions

with several EYOA officials and board members, we concluded that the director of VETS--who was a member of the EYOA board at the time--had apparently gained sufficient support for the proposal to have the program funded despite the contrary EYOA staff recommendation.

OEO and EYOA required VETS to submit quarterly statistical reports, which included information on the number of persons served and the type of services provided. To determine what services had been provided to participants, we reviewed the documentation which VETS maintained to support the required statistical reports. We found that VETS had prepared only 94 case files during the 9-month period the program was funded by EYOA. These records indicated that about two-thirds of the cases had been referred to VA or to a veterans service organization.

VETS submitted a complete quarterly report for only one period, the quarter ended June 30, 1971. Another report, submitted for the quarter ended September 30, 1971, was incomplete. Our review of the statistics reported for the quarter ended June 30, 1971, disclosed that the number of clients served had been significantly overstated, primarily because of numerous duplications in the data reported by VETS.

To arrive at a more reasonable estimate of the number of clients VETS served, we eliminated obvious duplications of reported activity. The results of our analysis of VETS statistics are summarized as follows:

Statistics for the Quarter Ended June 30, 1971

	<u>Number of clients</u> <u>Reported</u> <u>Per GAO</u> <u>by VETS</u> <u>analysis</u>	
Referrals to:		
Job opportunities	120	64
Government job-training programs	64	14
Academic training programs	163	9
The local welfare agency	48	21
Other community programs	52	4
VA facilities for medical care	71	25
Housing, mainly the VA domiciliary	75	22
Legal aid programs	7	12
Public agencies, such as the Social Security Administration	<u>75</u>	<u>72</u>
Total	<u>675</u>	<u>243</u>
Services:		
Job placement	16	12
Assistance to veterans in obtaining and completing forms for VA benefits	<u>170</u>	<u>109</u>
Total	<u>861</u>	<u>364</u>

On the basis of our analysis of the list, we estimated that about 90 percent of the 364 persons assisted by the program lived at VA facilities in Los Angeles. It was not feasible for us to contact these persons regarding the services they had received from the program because the VA facilities were vacated during February 1972, due to earthquake-related structural danger, and because the former residents had been either released--and their location was unknown--or sent to VA domiciliaries located in other areas of the country.

We discussed our findings with the VETS director who agreed that the statistics reported by VETS were inaccurate

and who attributed the overstatements to clerical errors by his employees. He contended, however, that the program had provided many services to veterans which had not been covered in the statistical reports. He could not, however, furnish any documentation to substantiate this claim. The director also confirmed our observations that VETS was mainly a referral service and that much of its activity involved helping claimants submit applications for VA benefits. Officials of the VA and veterans service organizations advised us that they assist any veteran in applying for benefits and provide veterans with a wide range of training and other programs.

On September 27, 1971, the EYOA board of directors voted to not fund the VETS program for 1972. The reasons specified by EYOA for this action were VETS' failure to (1) satisfy the statement of work, (2) establish a functioning advisory board, and (3) report data as required.

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The contents of this report were discussed informally with EYOA and local Labor and OEO officials at the conclusion of our review. However, these officials have not been given the opportunity to formally consider and comment on this report.

We plan to make no further distribution of this report unless copies are specifically requested, and then such distribution will be made only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

We trust that the above information satisfactorily responds to your request.

Sincerely yours,



Comptroller General
of the United States

The Honorable Chet Holifield
House of Representatives

APPENDIX II

CONTRACTS REVIEWED

<u>Contractor</u> <u>(note a)</u>	<u>Service provided</u>	<u>Period of</u> <u>performance</u>	<u>Contract</u> <u>amount</u> <u>(note b)</u>	<u>Amount</u> <u>expended</u>
A. California Dental Service	Administration of dental services for Head Start children and payment to the dentists	9- 1-69 to 8-31-70	\$151,400	\$114,648
B. Penrod Musser	Analysis of EYOA telephone system to reduce costs	3- 4-70 to 3-17-70	550	550
C. Booz, Allen, & Hamilton, Inc.	Development of, and help in implementing, EYOA reorganization plan	1- 1-70 to 6-30-70	49,000	48,472
D. Michael Hachigian	Legal services to EYOA on an as-needed basis for \$35 per hour	1- 2-70 to 1-29-71	21,850	27,276
E. Dr. L. C. Villa	Optical care on an as-needed basis for CEP enrollees at a rate which did not exceed \$40 per enrollee	12- 1-69 to 12-31-70	10,160	5,739
F. James Olguin	Serving as EYOA's Indian-programs-planning coordinator	4- 6-70 to 1-29-71	8,327	8,309
G. Velma Parness	Preparation of a proposal for a model school program	3-16-70 to 3-27-70	418	418
H. Clarence Williams	Serving as EYOA's director of planning and evaluation	5-18-70 to 7-17-70	3,056	3,041
I. Wilfong, Vasquez & Co.	C.P.A. audit of EYOA financial operations for the 18-month period ended December 31, 1969	7- 1-70 to 11-30-70	44,000	43,997
J. Computing and Software, Inc.	A 16-week training course for CEP enrollees	6- 8-70 to 9-30-70	28,563	28,563
K. Victor Business Schools	An 18-week training course for 60 NYC enrollees	4-15-71 to 8-19-71	53,000	45,472
L. Resthaven Psychiatric Hospital	A rehabilitation and vocational assessment program for narcotic addicts	7- 1-71 to 6-30-73	200,000	9,800 ^c
M. Capital Ascent Corporation	Monitoring and evaluating the performance of operating agencies and EYOA-Model Cities Summer Program	6-27-71 to 9-10-71	25,117	18,796

^a A synopsis of each contract corresponding to each identifying letter (A, B, C, etc.) is contained in app. II.

^b These are the maximum amounts that could be paid under the contracts. In those instances in which services are procured on an as-needed basis, the full amount of the contract may not be expended. The unliquidated balances are available for reprogramming or return to the funding source.

^c This contract is still in process. The amount expended is that of March 31, 1972.

CONTRACT SYNOPSES

- A. The contractor was hired to administer a program which provided dental care for up to 3,028 Head Start program enrollees and to pay the dentists for the services because the EYOA staff did not have the expertise to evaluate the need for, and the cost and quality of, the dental services provided to enrollees. The contractor--being affiliated with the California Dental Society--had access to the confidential fee schedules of about 11,000 California dentists and had dentists on its staff. EYOA officials advised us that the contractor was the sole source of this service in the Los Angeles area.

On a test basis, we compared the fees charged by dentists for services rendered to enrollees with the fee schedules maintained by the contractor. We found that the dentists had been paid at rates which were usual, customary, and reasonable for dental services in the Los Angeles area. The contractor's administration fee was 8.5 percent of the payments to the dentists. This was the usual rate charged by the contractor for this type of service. In our opinion, the cost did not appear excessive considering the services provided and the alternative cost to EYOA of maintaining a staff capable of administering the program. EYOA records show that 2,114 Head Start enrollees received dental services under contract.

- B. The contractor was hired to review and analyze EYOA's telephone system--both usage and equipment--to reduce costs which were averaging \$5,600 a month. A private contractor was engaged because EYOA did not have the in-house capacity to adequately do this technical task and because EYOA officials believed a greater degree of objectivity would be achieved by hiring a private contractor than by having the telephone company make a similar study. The contractor's suggestions for changes in telephone equipment and service were adopted and EYOA's monthly costs were reduced by about \$100. The contractor's review also disclosed certain billing discrepancies, such as charges by the telephone company for disconnected phones, which resulted in about an \$800 refund to EYOA by the telephone company. The contractor took about 100 hours to complete the review and was paid a fee of \$550.
- C. According to EYOA and OEO officials, EYOA developed a reorganization plan in anticipation of funding cuts. These officials believed that the reorganization would help EYOA make the best use of its resources. The contractor was hired to evaluate and help implement the EYOA reorganization plan.

The contractor's bid was the second lowest of four received by EYOA. OEO, on the basis of its prior experience with the lowest bidder, instructed EYOA to not select that bidder.

OEO and EYOA officials advised us that an outside party had been needed to assist in the reorganization because the EYOA board and

staff would be more responsive to the expertise of an independent party. In addition, EYOA management believed that the use of a consultant rather than existing EYOA staff would greatly expedite implementing the reorganization.

The contractor and EYOA officials told us that, after evaluating EYOA's reorganization plan, the contractor had found it necessary to develop a new plan. After preparing a new plan, the contractor assisted EYOA in its implementation by conducting seminars to orient EYOA staff and management to the reorganization.

- D. The contractor was engaged to perform a variety of legal services, including representation of EYOA in litigations and attending board meetings to advise on legal questions. According to an EYOA official, this contractor was hired because of his prior experience with EYOA--he served as the EYOA staff attorney from 1966 until 1969, when he established his own practice--and EYOA concluded that the cost of legal services, on an as-needed basis, would be less expensive than hiring a full-time attorney. Cost comparisons, which we reviewed and considered reasonable, showed that it would cost about \$40,000 a year to hire a full-time staff attorney and provide him with office space, a law library, and a secretary. EYOA management anticipated that an average of 60 hours of legal service each month would be needed and, at the contract rate of \$35 an hour, would cost about \$25,000 a year. During the 13-month contract period, EYOA used the contractor's services about 60 hours a month at an average cost of about \$2,100 a month.

A follow-on contract was awarded for the 12-month period ended January 31, 1972. We found that the average cost of the services for this period had been about \$2,500 per month. During this period, however, EYOA was engaged in a greater number of litigations which, in some instances, required the use of over 100 hours of legal services a month. In January 1972 OEO instructed EYOA to hire a permanent staff attorney at an annual cost not to exceed \$25,000. OEO reasoned that an organization the size of EYOA warranted a full-time permanent staff attorney to provide EYOA with legal services. As of May 31, 1972, EYOA was continuing its efforts to employ a full-time staff attorney.

- E. The contractor was hired to provide optical care, consisting of eye examinations and glasses, on an as-needed basis to CEP enrollees at a rate not to exceed \$40 per participant. Optical care is part of a group of services, including legal assistance and vocational training, that CEP provides to participants to prepare them to be placed in jobs.

We interviewed three optometrists and an official of an optical clinic in the Los Angeles area and found that the contractor's maximum rate of \$40 per participant was comparable to their usual charges for similar optical services. CEP officials advised us that this

contractor had been selected from among community optometrists because he spoke English and Spanish, his office was located close to a bus stop easily reached by participants living in East Los Angeles, and his fee was within the program's fiscal guidelines. The contractor provided optical services to 146 CEP enrollees, who were screened before being sent to the contractor. Almost all enrollees sent to the contractor required glasses.

- F. The contractor was hired as part of a plan to increase EYOA's involvement in programs for the Indian community in the Los Angeles area. The executive director of EYOA advised us that a consultant had been engaged, rather than hiring a regular employee, because EYOA did not have an Indian-planning-coordinator position and the OEO approval required to create the position would delay the program about 3 to 6 months.

The contractor was one of three candidates selected from the Indian community. The two other candidates were not selected because they could not devote full time to the job. EYOA officials advised us that the contractor had organized, and had participated in programs for, the Indian community. Once the continuing need for an Indian program coordinator had been demonstrated, EYOA hired a full-time Indian affairs specialist.

- G. The contractor was engaged to rewrite, refine, and detail a proposal for a model school program, after attempts by EYOA staff and community volunteers had, in the opinion of the EYOA executive director, been unsuccessful in preparing such a proposal. The proposal for funding a program to educate disadvantaged children residing in low-income areas was to be submitted to OEO. The contractor was selected because of her prior experience with a program in San Francisco, California, which was similar to the type of program EYOA was attempting to establish.

Although the contractor performed in accordance with the terms of the contract, the proposal she had developed was not submitted to OEO because it did not completely satisfy EYOA's executive director.

- H. The contractor was hired to serve as the EYOA director of planning and evaluation. This position was established because OEO and EYOA officials believed that EYOA's operation could be improved through increased planning. This particular contractor was selected because he had experience as the director of a community action agency in San Diego, California, and was a former employee at EYOA.

EYOA intended to engage the contractor as an employee rather than as a consultant. However, the contractor was unwilling to accept the full-time position because of personal problems. He was hired at a salary of \$1,513 a month, which was equal to the salary EYOA had planned to pay him as an employee. After 2 months as a consultant,

the contractor was able to accept the full-time position as an employee at a salary of \$1,513 a month.

- I. EYOA engaged the services of an auditing firm because OEO requires grantees to submit periodic financial audit reports prepared by independent public accountants. EYOA solicited bids from 10 accounting firms, and the contractor submitted the lower of the two bids which were received.

The contractor was a consortium of accountants from minority groups, including Mexican-Americans, blacks, and orientals. EYOA initiated the consortium by suggesting to several minority accounting firms that they join to create a firm large enough to handle accounts as large as EYOA's. The contractor prepared the audit reports that were required by the contract.

- J. The contractor operated one of the three skills centers where 16-week basic vocational training courses were conducted for CEP enrollees. The courses covered such subjects as shop safety and the use of basic hand tools that would increase enrollees' employability. The two other skills centers were operated by the Los Angeles City School District. There was no significant difference in the fees charged by the three skills centers. A Labor official advised us that the Department strongly encouraged the use of skills centers in training programs.
- K. The contractor was engaged to conduct an 18-week business machine training course for 60 NYC enrollees and to assist them in finding jobs. EYOA officials advised us that the local public schools could not provide the level of job placement and curriculum specialization that enrollees needed. This statement was supported by a local school system official. EYOA officials advised us that the contractor's fee compared favorably with those charged by other local business schools. We found that the fee was not excessive on the basis of the cost per hour of student instruction.

This particular contractor was selected because of its experience in antipoverty programs and its promise to offer lifetime job placement assistance to the enrollees. EYOA believed that the contractor's prominence in the business machine industry would enhance the enrollees' placement prospects.

EYOA records show that nine of the 43 enrollees who had completed the course were placed in jobs. EYOA officials advised us that the course was not as effective as they had thought it would be because the contractor had not used its regular staff, facilities, or curriculum in training enrollees. In addition, the contractor's placement director did not have the means to operate an effective placement program. Because of this, EYOA withheld the final 14 percent of the contract amount. In addition, EYOA took action to better monitor contractor performance to identify problems which required corrective action.

- L. The contractor was hired to conduct a consultation, rehabilitation, and vocational assessment program for narcotic addicts. This program is being conducted in conjunction with the State Department of Corrections with the intent of providing up to 1,000 addicts with an opportunity to be rehabilitated and returned to society rather than sent to correctional institutions.

We examined the contractor's detailed rates for services and found that the total fee of \$200 per enrollee did not appear excessive on the basis of the services provided.

The program's services include a workshop where enrollees' work habits are observed and evaluated. The enrollees are assisted in developing good work habits that will help them obtain and retain jobs. EYOA records show that, as of March 31, 1972, 60 persons had been or were being served by the program. EYOA and State officials advised us that the contractor had the only facility in the Los Angeles area that operated a vocational assessment program for narcotic addicts.

- M. The contractor was engaged as part of an agreement by which the Los Angeles Model Cities Program funded part of the EYOA 1971 summer program, which included job development and placement services for youth. Model Cities requested EYOA to hire, and agreed to reimburse the expense of, this contractor to monitor and evaluate that portion of the program which Model Cities was funding.

EYOA and Model Cities officials advised us that EYOA staff could not have been used in place of the contractor because Model Cities procedures and forms were significantly different from those used by EYOA. The contractor had prior experience in working with the Model Cities Program. These officials also informed us that the contractor performed for, and reported to, Model Cities management. We did not extend our review of this contract to evaluating the contractor's performance because EYOA was not responsible for the cost, the award, or the contractor's performance under the contract.